

**FINANCIAL AUDITS OF THE
STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

FOR THE YEARS ENDED JUNE 30, 2003 and 2002

January 23, 2004

Comptroller
State of Hawaii
Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawaii 96813

Gentlemen:

Herein we submit our report on the financial statements of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund, as of and for the years ended June 30, 2003 and 2002. Our audits were performed in accordance with the terms of our contract with the State of Hawaii.

We would like to express our appreciation to the personnel of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund, and in particular to Mr. Brian Saito, Mr. George Okano and Mr. Hugh Sonoda and his staff, for the assistance and cooperation we received during the course of our audits.

Yours truly,

ENDO & COMPANY

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

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**MANAGEMENT=S DISCUSSION
AND ANALYSIS**

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

This section of the State of Hawaii, Department of Accounting and General Services, State Parking Revolving Fund's (the "Fund") annual financial report presents management's discussion and analysis of the Fund's financial performance during the year ended June 30, 2003. Please read it in conjunction with the Fund's financial statements which follows this section.

Financial Highlights

- < The Fund's total net assets decreased by 8.5% or \$3,146,470 in 2003 over 2002. The decrease is principally due to the transfer of \$3,000,000 to the State's General Fund.
- < The Fund's operating revenues increased 4.3% or \$148,399 in 2003 over 2002. The increase is partially due to an increase in parking assessments revenues resulting from greater utilization of vacant stalls.
- < Lower investment yields and reduction in cash available to invest due to the transfer of \$3,000,000 to the State General Fund resulted in a decrease in interest income of \$87,259, a 43.2% decrease over 2002.

Overview of the Financial Statements

The financial statements consists of three (3) parts: management's discussion and analysis, the financial statements and notes to financial statements, and other report. These components are described below:

Financial Statements

The financial statements reports information about the Fund using accounting methods similar to those used by private sector companies. The *Statement of Net Assets* provide both short-term and long-term information about the Fund's financial position, which reflects the Fund's economic condition at the end of the year. All of

**STATE OF HAWAII
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Overview of the Financial Statements (continued)

the current year=s revenues and expenses are accounted for in the *Statements of Revenues, Expenses and Changes in Net Assets* on an accrual basis, i.e., regardless of when cash is received or paid.

The *Statements of Net Assets* presents all of the Fund=s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in the Fund=s assets may serve as an useful indicator of whether the financial position of the Fund is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* presents information reflecting changes in the Fund=s net assets during the year.

The *Notes to Financial Statements* provides additional disclosures for information reflected in the financial statements.

Other Report

Following the *Notes to Financial Statements* is the *Report on Compliance and on Internal Control Over Financial Reporting*.

Financial Analysis

As mentioned previously, the *Statements of Net Assets* provides, over time, indicators of the Fund=s financial position. The *Statements of Net Assets* includes all the Fund=s assets and liabilities, and provides information about the nature and the amounts of investment in resources (assets) and the obligations (liabilities) of the Fund.

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STATE PARKING REVOLVING FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

As of June 30, 2003 and 2002, the Fund's net assets were as follows:

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets	\$ 3,760,616	\$ 5,798,731
Capital assets	<u>32,289,695</u>	<u>33,953,241</u>
TOTAL ASSETS	<u>\$ 36,050,311</u>	<u>\$ 39,751,972</u>
LIABILITIES		
Current liabilities	\$ 511,103	\$ 682,907
Long-term liabilities	<u>1,640,152</u>	<u>2,023,539</u>
TOTAL LIABILITIES	<u>2,151,255</u>	<u>2,706,446</u>
NET ASSETS		
Invested in capital assets, net of debt	30,551,928	31,726,830
Unreserved	<u>3,347,128</u>	<u>5,318,696</u>
TOTAL NET ASSETS	<u>33,899,056</u>	<u>37,045,526</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,050,311</u>	<u>\$ 39,751,972</u>

Net assets of the Fund decreased by 8.5% over 2002. Investment in capital assets (e.g., land, construction in progress, structures and improvements, and equipment, furniture and fixtures), less the related debt used to construct the assets represents a large portion of the Fund's net assets; \$30,551,928 or 90.1% in 2003 and \$31,726,830 or 85.6% in 2002. Capital assets are used to provide parking for state

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

employees or for contractors with state related business. The Fund's investment in its capital assets is reported net of debt. The resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the parking structures, cannot be used to liquidate these liabilities. The remaining unreserved assets may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

The changes in net assets reflects the Fund's current year's revenues and expenses regardless of when cash is received or paid. The changes in net assets for the years ended June 30, 2003 and 2002, are follows:

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Parking assessments	\$ 2,577,024	\$ 2,441,392
Parking meter collections	772,607	736,769
Traffic fines	207,830	233,327
Other income	<u>2,582</u>	<u>156</u>
TOTAL OPERATING REVENUES	<u>3,560,043</u>	<u>3,411,644</u>
OPERATING EXPENSES		
General operating and administrative expenses	2,025,222	2,159,112
Depreciation	<u>1,671,892</u>	<u>1,671,521</u>
TOTAL OPERATING EXPENSES	<u>3,697,114</u>	<u>3,830,633</u>
LOSS FROM OPERATIONS	(137,071)	(418,989)
NONOPERATING REVENUES (EXPENSES)	(9,399)	50,629
OPERATING TRANSFERS - General Fund	<u>(3,000,000)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u><u>\$(3,146,470)</u></u>	<u><u>\$ (368,360)</u></u>

**STATE OF HAWAII
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STATE PARKING REVOLVING FUND**

MANAGEMENT=S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

The Fund=s parking assessment fees and rates are established under the jurisdiction of the Comptroller, as chief of the Department of Accounting and General Services or the Comptroller=s designated representative, the division head of the automotive management division. The increase in operating revenues of \$148,399 in 2003 was partially due to an increase in parking assessments revenues resulting from greater utilization of vacant stalls by renting stalls to the general public.

Traffic fines are reported as operating revenues when the Fund receives the monies collected from the District Court.

The decrease in general operating and administrative expenses, exclusive of depreciation expense, from \$2,159,112 in 2002 to \$2,025,222 in 2003, a decrease of \$133,890 or 6.2%, was principally a result of less parking structures repairs, upgrades and maintenance during the current year partially offset by an increase in personnel services of \$130,318.

Capital Assets and Debt Administration

Capital Assets

The Fund=s investment in capital assets amounted to \$32,289,695 and \$33,953,241 (net of accumulated depreciation of \$32,273,057 and \$30,601,165 as of June 30, 2003 and 2002, respectively). Capital assets includes land, structures and improvements, equipment, furniture, and fixtures. Structures and improvements represents 83.9% in 2003 and 2002, respectively, of the total capital assets.

**STATE OF HAWAII
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Financial Analysis (continued)

See Notes (1) and (2) of the Fund's financial statements for additional information regarding the Fund's capital assets. The Fund's capital assets, net of accumulated depreciation are as follows:

	<u>2003</u>	<u>2002</u>
Capital assets, not being depreciated		
Land	\$ 10,271,053	\$10,271,053
Construction in progress	<u>40,686</u>	<u>37,397</u>
Total capital assets, not being depreciated	<u>10,311,739</u>	<u>10,308,450</u>
Capital assets, net of accumulated depreciation		
Structures and improvements	21,941,767	23,601,050
Equipment, furniture and fixtures	<u>36,189</u>	<u>43,741</u>
Total capital assets, net of accumulated depreciation	<u>21,977,956</u>	<u>23,644,791</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 32,289,695</u>	<u>\$ 33,953,241</u>

**STATE OF HAWAII
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STATE PARKING REVOLVING FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

Capital Assets and Debt Administration (continued)

Debt Administration

As of June 30, 2003 and 2002, the Fund had long-term debt of \$1,737,766 and \$2,226,411, respectively, which is comprised of a General obligation bond and General obligation refunding bonds. See Note (6) of the Fund's financial statements for additional information on the General obligation bond and General obligation refunding bonds:

	<u>2003</u>	<u>2002</u>
Current installments	\$ 380,088	\$ 489,982
Bond payable, net of current	<u>1,357,678</u>	<u>1,736,429</u>
 TOTAL BONDS PAYABLE	 <u>\$ 1,737,766</u>	 <u>\$ 2,226,411</u>

The Fund's total debt decreased by \$488,644 in 2003 from 2002. The Fund incurred additional General obligation refunding bonds of \$3,648 during 2003, which was used to refund a General obligation bond.

REPORT ON THE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Comptroller
State of Hawaii
Department of Accounting and General Services

We have audited the accompanying statements of net assets of the

STATE PARKING REVOLVING FUND (Fund),

as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the State of Hawaii, Department of Accounting and General Services. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements present only the accounts of the Fund and are not intended to present the financial position and results of operations of the State of Hawaii, or any other segment thereof, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated November 17, 2003, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 17, 2003
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

STATEMENTS OF NET ASSETS

June 30, 2003 and 2002

ASSETS

	<u>2003</u>	<u>2002</u>
CURRENT ASSETS		
Cash in State Treasury (Note 1)	\$ 3,723,262	\$ 5,634,558
Accounts receivable, net	32,874	137,241
Prepaid special assessment	-	7,972
Due from State Motor Pool Revolving Fund	-	14,298
Inventories (Note 1)	<u>4,480</u>	<u>4,662</u>
TOTAL CURRENT ASSETS	<u>3,760,616</u>	<u>5,798,731</u>
NONCURRENT ASSETS		
Capital assets, at cost, less accumulated depreciation (Notes 1 and 2)	<u>32,289,695</u>	<u>33,953,241</u>
TOTAL ASSETS	<u>\$ 36,050,311</u>	<u>\$ 39,751,972</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable (Note 3)	\$ 23,036	\$ 82,203
Accrued liabilities (Note 4)	107,979	102,680
Due to State Motor Pool Revolving Fund	-	8,042
General obligation bonds payable-current (Note 6)	<u>380,088</u>	<u>489,982</u>
TOTAL CURRENT LIABILITIES	<u>511,103</u>	<u>682,907</u>
NONCURRENT LIABILITIES		
Security card deposits	14,230	13,310
Accrued liabilities (Note 4)	127,282	132,838
Due to State of Hawaii	140,962	140,962
General obligation bonds payable, less current portion above (Note 6)	<u>1,357,678</u>	<u>1,736,429</u>
TOTAL NONCURRENT LIABILITIES	<u>1,640,152</u>	<u>2,023,539</u>
TOTAL LIABILITIES	<u>2,151,255</u>	<u>2,706,446</u>
NET ASSETS		
Invested in capital assets, net of related debt	30,551,928	31,726,830
Unreserved	<u>3,347,128</u>	<u>5,318,696</u>
TOTAL NET ASSETS	<u>33,899,056</u>	<u>37,045,526</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,050,311</u>	<u>\$ 39,751,972</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS**

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Parking assessments	\$ 2,577,024	\$ 2,441,392
Parking meter collections	772,607	736,769
Traffic fines	207,830	233,327
Other income	<u>2,582</u>	<u>156</u>
TOTAL OPERATING REVENUES	<u>3,560,043</u>	<u>3,411,644</u>
OPERATING EXPENSES		
Personnel services	1,007,592	877,274
Depreciation	1,671,892	1,671,521
Repairs and maintenance	618,014	843,790
Special assessment (Note 11)	43,898	55,479
Others	<u>355,718</u>	<u>382,569</u>
TOTAL OPERATING EXPENSES	<u>3,697,114</u>	<u>3,830,633</u>
LOSS FROM OPERATIONS	<u>(137,071)</u>	<u>(418,989)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	114,937	202,196
Interest expense	(101,791)	(126,682)
Assessment on ceded land revenues	(22,363)	(24,885)
Loss on advance refunding	<u>(182)</u>	<u>-</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(9,399)</u>	<u>50,629</u>
LOSS BEFORE TRANSFERS	(146,470)	(368,360)
OPERATING TRANSFERS - General	<u>(3,000,000)</u>	<u>-</u>
CHANGE IN NET ASSETS	(3,146,470)	(368,360)
TOTAL NET ASSETS, beginning of year	<u>37,045,526</u>	<u>37,413,886</u>
TOTAL NET ASSETS, end of year	<u>\$ 33,899,056</u>	<u>\$ 37,045,526</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from parking assessments	\$ 2,679,405	\$ 2,452,052
Receipts from parking meter collections	782,565	735,681
Receipts from traffic fines	207,830	233,327
Other receipts	2,582	156
Payments for personnel services	(997,505)	(852,106)
Payments for repairs and maintenance	(618,014)	(843,790)
Payments for special assessment	(51,940)	(47,437)
Other payments	<u>(399,447)</u>	<u>(345,876)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,605,476</u>	<u>1,332,007</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest from time certificates of deposit	<u>114,937</u>	<u>202,196</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>114,937</u>	<u>202,196</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for construction in progress, net of completed repairs	(3,289)	9,112
Ceded land payment	(22,401)	(24,104)
Principal paid on general obligation bonds	(488,644)	(482,745)
Acquisition of capital assets	(5,057)	(16,096)
Advance refunding on general obligation bonds	(182)	-
Interest paid on general obligation bonds	<u>(112,136)</u>	<u>(137,132)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(631,709)</u>	<u>(650,965)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Transfer Out to General Fund	<u>(3,000,000)</u>	<u>-</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<u>(3,000,000)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH	(1,911,296)	883,238
CASH, beginning of year	<u>5,634,558</u>	<u>4,751,320</u>
CASH, end of year	<u>\$ 3,723,262</u>	<u>\$ 5,634,558</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Loss from operations	\$ (137,071)	\$ (418,989)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	1,671,892	1,671,521
(Increase) decrease in assets:		
Accounts receivable	104,367	17,544
Prepaid special assessment	7,972	(7,972)
Due from State Motor Pool Revolving Fund	14,298	(4,585)
Inventories	182	2,395
Increase (decrease) in liabilities:		
Accounts payable	(59,129)	34,423
Accrued wages payable	3,667	2,890
Accrued vacation payable	6,420	22,278
Security card deposits	920	4,460
Due to State Motor Pool Revolving Fund	<u>(8,042)</u>	<u>8,042</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,605,476</u>	<u>\$ 1,332,007</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units.

Background - The State Parking Revolving Fund (Fund) was established by an appropriation of \$50,000 from the State's General Fund pursuant to Act 161, Session Laws of Hawaii 1963 (Section 107-11 of the Hawaii Revised Statutes). The Fund is responsible for the assessment and collection of reasonable parking fees, installation of parking meters, and the restriction and control of parking on all state lands within the State Comptroller's jurisdiction. All fees, charges and other revenue collected are deposited into this Fund. The funds are to be expended, as necessary, to defray the cost of paving parking areas as well as the purchase and installation of parking meters on state lands within the State Comptroller's jurisdiction.

Basis of Accounting - The Fund is an enterprise fund (proprietary fund type) as defined by the Governmental Accounting Standards Board (GASB), which uses the flow of economic resources measurement focus and accrual basis of accounting as generally applied to commercial enterprises. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Use of Estimates - The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury (cash pool). The

**STATE OF HAWAII
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STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies (continued)

Hawaii Revised Statutes (HRS) authorizes the Director of Finance to invest in obligations of or guaranteed by the U. S. Government, obligations of the State of Hawaii (State), federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the Fund, which in the Director=s judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies.

For purposes of the financial statements, the Fund considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories - Inventories, principally supplies, are stated at the lower of cost or market with cost being determined by the first-in, first-out method (FIFO).

Capital Assets - Capital assets are defined by the Fund as parking structures and improvements, equipment, furniture and fixtures with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Parking structures and improvements	\$100,000
Equipment, furniture and fixtures	5,000

Capital assets are stated at cost. Donated assets are recorded at their fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly

**STATE OF HAWAII
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STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies (continued)

acquired by the Fund. The cost of normal maintenance and repairs that do not add to the value or materially extend useful lives are charged to operations as incurred. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts with the resulting gain or loss reflected in operations.

Depreciation - Depreciation is computed under the straight-line method over estimated useful lives as follows:

	<u>Useful Lives</u>
Structures and improvements	30 years
Equipment, furniture and fixtures	5 - 12 years

Vacation Pay - The Fund's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, the employees are paid their vacation allowance in a lump sum. The Fund records all vacation pay at current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

Traffic Fines - Traffic fines are reported as revenue when received.

New Accounting Pronouncements - The GASB issued Statement No. 34, *Basic Financial Statements - and Management=s Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management=s Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements established new financial reporting requirements and a new financial reporting model for state and local governments. The Fund adopted these pronouncements, effective July 1, 2001.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(2) Capital Assets

Capital assets activity for the year ended June 30, 2003 was as follows:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Balance Deductions</u>	<u>June 30, 2003</u>
Capital assets not being depreciated:				
Land	\$ 10,271,053	\$ -	\$ -	\$ 10,271,053
Construction in progress	<u>37,397</u>	<u>81,651</u>	<u>78,362</u>	<u>40,686</u>
Total capital assets not being depreciated	<u>10,308,450</u>	<u>81,651</u>	<u>78,362</u>	<u>10,311,739</u>
Capital assets being depreciated:				
Structures and improvements	54,162,305	-		- 54,162,305
Equipment, furniture and fixtures	<u>83,651</u>	<u>5,057</u>	<u>-</u>	<u>88,708</u>
Total capital assets being depreciated	<u>54,245,956</u>	<u>5,057</u>	<u>-</u>	<u>54,251,013</u>
Total capital assets	<u>64,554,406</u>	<u>86,708</u>	<u>78,362</u>	<u>64,562,752</u>
Less accumulated depreciation for:				
Structures and improvements	(30,561,255)	(1,659,283)	-	(32,220,538)
Equipment, furniture and fixtures	<u>(39,910)</u>	<u>(12,609)</u>	<u>-</u>	<u>(52,519)</u>
Total accumulated depreciation	<u>(30,601,165)</u>	<u>(1,671,892)</u>		-
			<u>(32,273,057)</u>	
Total capital assets, net	<u>\$ 33,953,241</u>	<u>\$ (1,585,184)</u>	<u>\$ 78,362</u>	<u>\$ 32,289,695</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Ceded Land Revenues

In 1898, the Republic of Hawaii transferred certain lands to the United States of America. Upon Hawaii's admission to the Union in 1959, the United States of America reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public land trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians, as defined in the Hawaiian Homes Commission Act, 1920, as amended; (3) development of farm and home ownership; (4) making of public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA receive and expend 20% of all funds derived by the State from the ceded lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public land trust.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, Session Laws of Hawaii 1990, which (1) defined a public land trust and a revenue, (2) specified that 20% of the revenue derived from the public land trust was to be expended by OHA for the betterment of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of revenue to OHA on a quarterly basis.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Ceded Land Revenues (continued)

In 1993, the State Legislature enacted Act 35, Session Laws of Hawaii 1993, appropriating \$136.5 million to pay the amount determined to be OHA=s claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustee (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01(First Circuit)), claiming that the amount paid to OHA was inadequate and alleging that the State has failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA=s complaint, the State denied all of the Plaintiffs= substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs, thereafter, filed four motions for partial summary judgment as to the State=s liability to pay OHA 20% of monies it receives from (1) Airports= in-bond duty-free airport concession (including receipts from the concessionaire=s off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State=s rental public housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs= four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State=s motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs= four motions for partial summary judgment with respect to the State=s liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Ceded Land Revenues (continued)

those Sources for further proceedings or trial. The State=s motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plaintiffs= four motions for partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court=s disposition of the State=s appeal.

On September 12, 2001, the Hawaii Supreme Court concluded that Act 304 was effectively repealed by its own terms, and that there were no juridically manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See *OHA v. State*, 96 Haw., 388 (2002). The Hawaii Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. The State Legislature took no action during the 2002 legislative session, and the State=s payments of 20% of Arevenue@ were discontinued as of the first quarter in fiscal 2002.

The State currently is unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA=s claims could have an material adverse effect on the State=s financial condition.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation, et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Ceded Land Revenues (continued)

On April 2, 1996, the First Circuit Court denied the Defendants' motion for partial summary judgment which sought a ruling that the State has the authority to alienate ceded lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment) which the First Circuit Court heard on July 9, 1998 and denied on August 27, 1998. On September 3, 1998, the Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on October 7, 1998. Trial for this concluded on December 4, 2001. The First Circuit Court has taken the case under advisement.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA*.

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in the State's or the accompanying financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(3) Ceded Land Revenues (continued)

On February 11, 2003, an Executive Order was executed to establish accounts and procedures in the accumulation and transfer of ceded land payments to OHA effective as of the quarter ended December 31, 2002. It also directed all departments to make the determinations of the kind of receipts they derive from the public land trust.

The Fund has recorded ceded land payments of \$22,363 and \$24,885 for 2003 and 2002, respectively, to OHA representing OHA's entitlement to revenues derived from the Fund's use of ceded lands. All monies due prior to October 1, 2002 were transferred to a trust fund pending resolution of OHA's claim against the State. Included in accounts payable is \$5,547 and \$5,585 for ceded land payments due as of June 20, 2003 and 2002, respectively.

(4) Accrued Liabilities

Accrued liabilities consist of the following:

	<u>2003</u>	<u>2002</u>
Accrued wages payable	\$ 38,529	\$ 34,861
Accrued vacation payable	145,416	138,996
Accrued interest payable	38,216	48,561
Accrued workers compensation	<u>13,100</u>	<u>13,100</u>
	235,261	235,518
Less current portion	<u>(107,979)</u>	<u>(102,680)</u>
Total accrued liabilities, net of current portion	<u>\$ 127,282</u>	<u>\$ 132,838</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(5) Workers= Compensation Reserve

The Fund is fully self-insured for workers= compensation and disability claims which are expensed when incurred. The Fund pays a portion of wages, medical bills, judgments as stipulated by the Department of Labor and Industrial Relations, and other costs for injured workers. During the years ended June 30, 2003 and 2002, there were no payments for workers= compensation claims and disability expenses.

The Fund has recorded a reserve of \$13,100 for the expected cost of open reported claims based on historical cost information for closed and open claims as of June 30, 2003 and 2002.

(6) General Obligation Bonds Payable

The following are general obligation bonds and general obligation refunding bonds allocated to the Fund under acts of various Session Laws of Hawaii. Repayment of allocated bonds are made to the State=s General Fund. Details of the allocated bonds payable at June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
5.15% - 6.40% General obligation bonds, Series BW, of \$20,800 issued in March 1992 under Act 300, Session Laws of Hawaii 1995; annual principal payments of \$1,156 beginning March 1, 1995 through March 1, 1996, and \$1,155 beginning March 1, 1997 through March 1, 2012; semi-annual interest payments due September 1 and March 1; maturing on March 1, 2012.	\$ 8,088	\$ 11,554

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) General Obligation Bonds Payable (continued)

	<u>2003</u>	<u>2002</u>
4.30% - 5.75% General obligation refunding bonds, Series CB, of \$2,884,269 issued in January 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$221,980 beginning January 1, 1996 through January 1, 1997, and \$221,846 beginning January 1, 1998 through January 1, 2008; semi-annual interest payments due July 1 and January 1; maturing in January 2008.	1,109,231	1,331,078
3.85% - 7.75% General obligation refunding bonds, Series CC, of \$218,603 issued in February 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$15,615 beginning February 1, 1996 through February 1, 2005, and \$15,612 beginning February 1, 2006 through February 1, 2009; semi-annual interest payments due August 1 and February 1; maturing in February 2009.	93,680	109,295
3.85% - 5.00% General obligation refunding bonds, Series CD, of \$490,273 issued in February 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$61,295 beginning February 1, 1996 through February 1, 1998, and \$61,278 beginning February 1,		

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) General Obligation Bonds Payable (continued)

	<u>2003</u>	<u>2002</u>
1999 through February 1, 2003; semi-annual interest payments due August 1 and February 1; maturing in February 2003	-	61,278
3.25% - 5.50% General obligation refunding bonds, Series CF, of \$473,173 issued in July 1993 under Act 315, Session Laws of Hawaii 1992; annual principal payments of \$52,587 beginning July 1, 1994 through July 1, 1995, and \$52,571 beginning July 1, 1996 through July 1, 2002; semi-annual interest payments due January 1 and July 1; maturing in July 2002.	-	52,571
4.00% - 5.00% General obligation refunding bonds, Series CI, of \$550,212 issued in October 1993 under Act 344, Session Laws of Hawaii 1993; annual principal payments of \$36,685 beginning November 1, 1996 through November 1, 2003, and \$36,676 beginning November 1, 2004 through November 1, 2010; semi-annual interest payments due November 1 and May 1; maturing in November 2010.	293,418	330,103

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) General Obligation Bonds Payable (continued)

	<u>2003</u>	<u>2002</u>
4.00% - 5.00% General obligation refunding bonds, Series CQ, of \$659,806 issued in October 1997 under Act 357, Session Laws of Hawaii 1997; annual principal payments of \$81,623 beginning October 1, 1998 and increasing incrementally to \$108,621 through October 1, 2004; semi-annual interest payments due April 1 and October 1; maturing on October 1, 2004.	211,968	310,335
5.25% - 5.00% General obligation refunding bonds, Series CS, of \$20,197 issued in April 1998 under Act 357, Session Laws of Hawaii 1997; annual principal payments of \$2,465 beginning April 1, 2003 and increasing incrementally to \$3,335 through April 1, 2009; semi-annual interest payments due April 1 and October 1; maturing on April 1, 2009.	17,733	20,197
3.40% - 5.50% General obligation refunding bonds, Series CW, of \$1,254 issued in August 2001 under Act 3, Session Laws of Hawaii 2001; annual principal payment of \$89 beginning August 1, 2005 and increasing incrementally to \$146 through August 1, 2015; semi-annual interest payments due		

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) General Obligation Bonds Payable (continued)

	<u>2003</u>	<u>2002</u>
February 1, and August 1; maturing on August 15, 2015.	1,254	-
3.60% - 5.25% General obligation refunding bonds, Series CY, of \$2,394 issued in February 2002 under Act 3, Session Laws of Hawaii 2002; annual principal payments of \$216 beginning February 1, 2007 and increasing incrementally to \$326 through February 1, 2015; semi-annual interest payments due February 1, and August 1; maturing on August 15, 2015.	<u>2,394</u>	<u>-</u>
Total bonds payable	1,737,766	2,226,411
Less current installments	<u>(380,088)</u>	<u>(489,982)</u>
Bonds payable, net of current installments	<u>\$ 1,357,678</u>	<u>\$ 1,736,429</u>

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(6) General Obligation Bonds Payable (continued)

Approximate maturities on general obligation bonds payable for the next five years are as follows:

Years ending June 30:	
2004	\$ 380,088
2005	385,489
2006	278,253
2007	278,623
2008	278,788
Thereafter	<u>136,525</u>
	<u>\$ 1,737,766</u>

(7) Retirement Benefits

All eligible employees of the Fund are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a non-contributory option for members of the ERS who are also covered under Social Security. Persons who are employed in

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(7) Retirement Benefits (continued)

positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirement as of June 30, 2003 and 2002, based on the most recent information available, was approximately \$158,622,334 and \$113,984,000, respectively. The State contributed 100% of its required contributions for 2003 and 2002.

Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii 1999, decreased the June 30, 2003 and 2002 required contributions. The Fund's covered payroll was approximately \$772,900 and \$717,400 in 2003 and 2002, respectively. The retirement plan contributions charged to the Fund's operation was \$60,430 in 2003. There were no retirement plan contributions charged to the Fund's operations for 2002.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(8) Post-Retirement Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Contributions are financed on a pay-as-you-go basis. The Fund's share of the expense for post-retirement benefits for the years ended June 30, 2003 and 2002 was \$52,429 and \$37,924, respectively.

(9) Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
STATE PARKING REVOLVING FUND**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 and 2002

(9) Deferred Compensation Plan (continued)

All plan assets are held in a trust fund to protect them from claims of the State=s general creditors. The State has no responsibility for investment losses, but does have the duty of due care that would be required of an ordinary prudent investor.

(10) Contingencies

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The Fund's accumulated sick leave pay is based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of June 30, 2003 and 2002, sick leave accumulations were approximately \$353,700 and \$281,700, respectively.

(11) Central Service and Departmental Administrative Expenses

HRS Section 36-27 requires that the Fund be assessed its pro rata share of central service expenses of government in relation to other special funds based on a percentage of the Fund=s receipts. HRS Section 36-30 requires that the Fund be assessed its pro rata share of administrative expenses incurred by the Department of Accounting and General Services (DAGS), based on the ratio of the general administrative service expenses to DAGS=s net departmental expenses. There was no HRS Section 36-27 assessment in 2003 and 2002, respectively. The total of the assessment under HRS Section 36-30 was \$43,898 and \$55,479 in 2003 and 2002, respectively.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Comptroller
State of Hawaii,
Department of Accounting and General Services

We have audited the financial statements of the

STATE PARKING REVOLVING FUND (Fund),

as of and for the year ended June 30, 2003, and have issued our report thereon dated November 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund=s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered the Fund=s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted no matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund=s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report is intended solely for the information and use of the management of the Fund, the Department of Accounting and General Services and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

November 17, 2003
Honolulu, Hawaii